



Ferrari N.V. (RACE)

Updated May 7th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$198	5 Year CAGR Estimate:	2.0%	Market Cap:	\$37 B
Fair Value Price:	\$146	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	04/20/23 ¹
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Dividend Payment Date:	05/05/23 ²
Dividend Yield:	0.7%	5 Year Price Target	\$209	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	F	Race:	Sell

Overview & Current Events

Ferrari was founded in 1947 and is headquartered in Italy. The company began trading as a public company in 2015, following a spinoff from Fiat Chrysler. Today, the company manufactures luxury sports cars under a variety of models. Its cars are generally high performance, with a number of V-8 and V-12 models among its best sellers. Ferrari's luxury vehicles cater to the very top of the consumer automotive market. In 2020, shipments fell more than 10% to 9,119 units, with about half of that in Europe, Middle East, and Africa, and a third coming from the Americas. Last year's shipments rebounded to a new record of more than 11,000. Ferrari should generate about \$5 billion in annual revenue this year.

On February 25th, 2022, Ferrari raised its annual dividend 41% to \$1.47.

On May 4th, 2022, Ferrari reported first quarter results for the period ending March 31st, 2022. All figures reported in USD. For the quarter, revenue increased 3.6% to \$1.26 billion and was \$7 million ahead of estimates. Earnings-per-share of \$1.37 compared favorably to earnings-per-share of \$1.33 in the prior year and was \$0.12 better than expected.

For the quarter, units shipped of 3,251 was a 17.3% improvement from the prior year. Shipments grew 46.9% in mainland China, Hong Kong and Taiwan, 55.6% for the rest of Asia Pacific, and 19.5% for the EMEA. Shipments fell 12.8% in the Americas. Internal combustion engine models accounted for 83% of units shipped with hybrid models contributing the remainder. We expect Ferrari to earn \$5.03 per share in 2022, down from \$5.23 previously.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	\$1.66	\$2.22	\$3.38	\$3.89	\$4.12	\$3.33	\$5.25	\$5.03	\$7.22
DPS	---	---	---	---	\$0.46	\$0.64	\$0.88	\$1.16	\$1.23	\$1.04	\$1.47	\$2.11
Shares³	---	---	---	189	189	189	189	186	185	185	185	185

Ferrari became a publicly-traded company in 2015, when it was spun-off from its former parent company Fiat Chrysler. The company has posted strong growth as a public company. The past few years have seen global economic expansion, which is arguably the most important growth catalyst for a luxury automaker. As long as the global economy remains strong, Ferrari's sales and earnings should continue to grow. Of course, this growth trajectory would be called into question in tougher times. Given the name brand and growth in all markets, we estimate that Ferrari can grow earnings by a rate of 7.5% annually through 2027. This is a premium to other car manufacturers' expected growth rates.

Ferrari will also be investing in new products to generate growth. For example, Ferrari is developing its first SUV model, called the Purosangue, which is Italian for thoroughbred. It is a hybrid based on a new platform that Ferrari will be using for many of its next-generation models going forward. The new SUV model is expected to launch in 2022, with deliveries in 2023. Rolling out SUVs will allow Ferrari to enter a growth category within the automotive market, and expand its consumer reach. Overall, we anticipate mid-to-high-single-digit growth over the intermediate term.

¹ Estimated ex-dividend date

² Estimated dividend date

³ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	29.7	20.7	26.9	31.6	36.5	68.9	49.3	39.4	29.0
Avg. Yld.	---	---	---	0.0%	1.0%	0.7%	0.7%	0.8%	0.8%	0.4%	0.7%	1.0%

Much like Ferrari's sports cars, the current share price is trading a significant premium to the stock's historical average. While we do believe that some sort of upward revision is warranted as a result of the strong brand name and growth prospects, the current valuation still appears lofty. Shares of Ferrari have decreased \$31, or 13.5%, since our February 4th, 2022 report. Using estimates for earnings-per-share for 2022, the stock trades with a P/E of more than 39. Ferrari's business was greatly impacted by COVID-19. Excluding results in 2020, Ferrari has an average P/E in the high 20s since becoming a publicly traded company. We are reaffirming our 2027 target P/E of 29. If shares revert to our 2027 target P/E by this time then valuation would be a 5.9% headwind to total annual returns.

With regard to capital returned to shareholders, we believe the current dividend payout is prudent – pegged at 25% to 40% of past year's profits and paid once a year - but unexciting due to the elevated valuation. Share repurchases may become a larger part of the allocation strategy in the future, but so far, we have not seen this. In addition, the valuation poses a problem as it relates to effectiveness.

Safety, Quality, Competitive Advantage, & Recession Resiliency

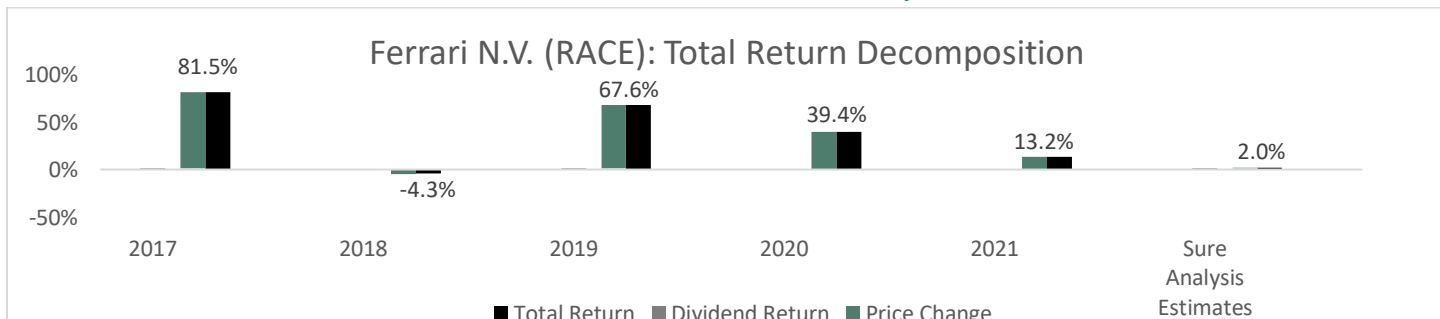
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	21%	19%	23%	28%	37%	20%	29%	29%

Ferrari's lasting competitive advantage is its brand. In some ways, the more expensive its vehicles, the more inaccessible they are to the average person, the more appealing the ultra-luxury automobiles become. Interestingly, substantially increased production is unlikely to be a long-term growth driver as this would devalue the exclusivity of the brand. The company currently generates healthy profit margins, as Ferrari does not have to battle it out in the exceptionally competitive middle-market segment. That said, this recession could be concerning if luxury vehicle purchases were to decline significantly (as we expect they would).

Final Thoughts & Recommendation

After first quarter results, Ferrari is expected to produce an annual return of 2.0% through 2027, up from our prior estimate of an annual loss of -0.4%. Our projection stems from 7.5% annual earnings growth and a starting yield of 0.7% offset by a mid-single-digit headwind from valuation. Shipments grew at a high teens rate for the quarter, showing that the rebound from the worst of the pandemic continues to occur. Most regions also experienced growth. That being said, Ferrari's valuation leaves a lot to be desired. We have lowered our five-year price target \$9 to \$209 to reflect earnings estimates for the year and reaffirm our sell rating on Ferrari due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,861	3,101	3,673	3,167	3,437	3,870	4,039	4,217	3,951	5,053
Gross Profit	1,319	1,462	1,671	1,504	1,688	2,000	2,122	2,196	2,025	2,591
Gross Margin	46.1%	47.1%	45.5%	47.5%	49.1%	51.7%	52.6%	52.1%	51.3%	51.3%
SG&A Exp.	312	345	399	376	327	373	387	384	384	412
D&A Exp.	305	359	384	305	274	295	341	394	487	540
Operating Profit	453	480	553	505	682	883	977	1,029	834	1,271
Operating Margin	15.8%	15.5%	15.0%	16.0%	19.9%	22.8%	24.2%	24.4%	21.1%	25.2%
Net Profit	290	320	348	319	441	606	927	779	694	983
Net Margin	10.1%	10.3%	9.5%	10.1%	12.8%	15.7%	22.9%	18.5%	17.6%	19.5%
Free Cash Flow	262	243	128	390	734	307	349	672	148	646
Income Tax	130	160	177	160	186	236	19	198	66	247

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		5,379	5,644	4,237	4,070	4,968	5,550	6,101	7,702	7,771
Cash & Equivalents		157	163	200	484	777	908	1,006	1,676	1,522
Accounts Receivable		284	223	173	258	287	242	259	227	209
Inventories		328	360	323	343	472	447	471	567	612
Goodwill & Int. Ass.		1,421	1,280	1,197	1,205	1,470	1,637	1,818	2,170	2,178
Total Liabilities		2,181	2,630	4,258	3,721	4,028	4,001	4,435	5,501	5,267
Accounts Payable		671	651	555	650	729	748	797	878	903
Long-Term Debt	-	438	620	2,471	1,954	2,167	2,204	2,273	3,275	2,914
Shareholder's Equity		3,162	3,003	(27)	344	934	1,543	1,659	2,196	2,498
LTD/E Ratio		0.14	0.21	(90.0)	5.69	2.32	1.43	1.37	1.49	1.17

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			6.3%	6.5%	10.6%	13.4%	17.6%	13.4%	10.1%	12.7%
Return on Equity			11.3%	21.5%	279%	94.9%	74.8%	48.7%	36.0%	41.9%
ROIC			9.6%	10.5%	18.6%	22.4%	27.0%	20.3%	14.7%	18.0%
Shares Out.	---	---	---	189	189	189	189	186	185	185
Revenue/Share	15.14	16.42	19.44	16.77	18.19	20.39	21.32	22.49	21.31	27.36
FCF/Share	1.39	1.29	0.68	2.06	3.89	1.62	1.84	3.58	0.80	3.49

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise

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